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## United States Senate

COMMITTEE ON ARMED SERVICES

WASHINGTON, DC 20510-6050

August 1, 2008

The Honorable Robert M. Gates  
Secretary of Defense  
1000 Defense Pentagon  
Washington, DC 20310-1000

Dear Secretary Gates:

Administration officials have told Congress on a number of occasions that U.S. funding of large-scale reconstruction projects in Iraq has ended. On April 8, 2008, U.S. Ambassador to Iraq Ryan Crocker told the Senate Armed Services Committee that “the era of U.S.-funded major infrastructure projects is over” and that the United States is no longer “involved in the physical reconstruction business” in Iraq.

At a time when oil, Iraq’s main export, has recently sold for over \$140 per barrel and Americans are paying over \$4 a gallon at the pump, Iraq – and not U.S. taxpayers – should be using its own revenues to pay for its reconstruction.

It is therefore difficult to understand why nearly \$33 million in funds from the Commanders’ Emergency Response Program (CERP) has been approved to finance a Baghdad International Airport “Economic Zone” (BEZ). According to the Defense Department’s most recent CERP report and information from DoD officials, BEZ projects being paid for with CERP funds include the construction of a business hotel (\$4.1 million); site preparation and preliminary design of a separate “3 star international class hotel” (\$870,000); renovations to an office tower (\$4.3 million); improvements to power, water, sewer and trash removal (\$15 million); renovations of a “VIP” building (\$169,000); and a convenience store and coffee shop (\$179,000). The Government of Iraq’s contribution to the BEZ projects is \$44.8 million.

It appears that this use of CERP funds is inconsistent with CERP’s purpose of enabling U.S. commanders in Iraq “to respond to urgent humanitarian relief and reconstruction requirements within their areas of responsibility by carrying out programs that will immediately assist the Iraqi people.” Equally important, it is difficult to understand why U.S. taxpayer funds should be used to pay for this major infrastructure project in Iraq which will be owned by the Iraqi Government.

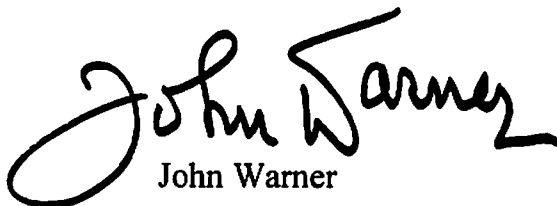
A draft Government Accountability Office (GAO) report produced at our request and provided to us on July 25<sup>th</sup> reinforces that Iraq is capable of paying for its own reconstruction.

According to the GAO report, the Iraqi Government revenues from 2005 to 2007 were an estimated \$96 billion, 94 percent of which were derived from oil revenues. For 2008, it is estimated that Iraq's revenues will be between \$73 billion and \$86 billion, primarily due to high oil prices, and Iraq's budget surplus could be as high as \$52.3 billion. The report also finds that the Government of Iraq continues to struggle to apply its growing revenues to much needed capital investment projects, spending just 28 percent of its \$12.2 billion capital investment budget in 2007.

In light of these findings, we request that you promptly seek from the Government of Iraq full reimbursement of the U.S. costs associated with the development and construction of the BEZ and take measures to ensure that future CERP funds are not used for large reconstruction projects such as this. The Government of Iraq must assume responsibility for financing these large-scale reconstruction projects.

Please notify us whether the U.S. will seek full reimbursement for these costs.

Sincerely,



John Warner



Carl Levin